European Federation of Accountants and Auditors for SMEs

EFRAG
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Brussels, 9 July 2009

Dear Mr Novak,

Re: EFAA's reaction to EFRAG's draft comment on IASB/FASB DP Leases

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to small and medium-sized entities both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are both SMEs themselves, and provide a range of professional services (e.g. audit, accounting, book-keeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on EFRAG draft comment on IASB/FASB DP Leases.

We are responding not primarily on the basis of the proposals as they would affect full IFRS, but in anticipation that the main accounting treatments proposed might come to apply to SMEs at some point in the future. We have therefore limited our comments to the key accounting treatments in the discussion paper

General comments

As a general remark, EFAA would like to emphasise that new accounting rules for leases should not impose an overkill of accounting rules for SMEs. Therefore the general principle that should prevail is that if lease instalments are competitive with normal rental charges, capitalisation should not apply.

Specific comments

1) *Do we favour the capitalisation model proposed (Q4)?*
EFAA supports the present system trying to distinguish cases of in-substance purchases from rental of assets. The proposed new assets created under short-term leases appear to

be of doubtful quality regarding the usefulness of information. In general we would favour not altering the current accounting treatment for lessees.

2) ***Should the present value be based on the lessor's incremental borrowing rate (Q6)?***

If we agree to capitalise all leases in the way we do currently for finance leases, then do we agree with measuring the asset at cost (subsequently depreciated cost) based on the present value of the liability to make lease payments (Q7)?

EFAA believes that both answers should be yes. It is the most practical way. Moreover, we should avoid creating a Day 1 profit that would only encourage new creative accounting.

3) ***A components approach or a single right-to-use asset and single obligation to pay rentals (Q5)?***

The single asset and liability appears to be much simpler and the more attractive approach. If the renewal or purchase terms are neither at market rental nor on peppercorn terms, these other components might have no material value and could therefore be ignored. The components approach might thereby avoid some of the complexities raised by trying to account for these options and guarantees that are covered by questions 13-15 and 21 for instance.

4) ***Should contingent rentals and residual value guarantees be estimated as a cash flow at the start of the lease and adjusted according to expectations (Q16 and 21)?***

Yes. There is a difference here with options to extend or purchase. The commitment may depend on actual usage or turnover achieved but the commitment is already entered into and it is a question of assessing the likely magnitude.

5) ***Should IASB/FASB address lessor accounting at the same time?***

EFAA does not believe that lessor accounting should be amended either.

Should you have any question on our comments, please do not hesitate to contact us.

Yours sincerely,

Federico Diomeda
Chief Executive Officer